Nishan Akgulian

Benefits in the '90s: Who pays?

Spiraling health costs are forcing employers to reevaluate all benefit plans

By John Caulfield and Tom Neven

Holmes Lumber's costs for providing comprehensive medical benefits to its 400 employees have been rising so rapidly in recent years that the four-unit company may drop its coverage entirely when its insurance policy comes up for renewel on June 1.

"This is a nationwide problem, and a lot of companies around here are simply discontinuing any kind of health coverage at all," says Jean Horne, director of personnel and risk management for the Jacksonville, Fla.-based dealer.

Health insurance costs to cover the 600 employees at Thompson Enterprises shot up 40 percent in 1989, "and they will rise again this year," laments Lisa Phillips, office manager and benefits coordinator for the Minnetonka, Minn.-based company, which operates eight Budget Power home centers. "I don't know what we're going to do about it."

The unceasing upward spiral in medical costs is forcing retailers around the country to take a hard look at their entire employee benefits packages. What they see are workers who require a broader range of benefits—medical, day care, tuition reimbursement, disability coverage, even mortgage compensation—and their company's balance sheet that cries out for budget cuts in a more austere age.

"In the future, employers will simply be more careful in planning their benefits programs," says Stephanie Poe, director of communications for the Employee Benefits Research Institute (EBRI) in Washington. "They can't be buying into trends, or basing their opinions about what to offer on small-sample surveys."

Retailing, and this industry in particular, is not known for the generosity of its benefits (*see charts, p. 43*). However, several of the 13 companies contacted for this story have extensive packages, and most are looking to expand their coverage.

The '90s, though, is likely to be a decade of dilemma, both for retail employers with limited funds who must provide a more flavorsome menu of benefits just to keep loyal employees from jumping ship to other companies with better packages; and for em-

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ployees who, in all likelihood, will be asked by their employers to foot more of the bill for the benefits they want, and could be asked to pay again by federal and state governments in the form of taxes on benefits received.

"The well is only so deep," says Ed Burke, controller for the eight-unit Somerville Lumber in Waltham, Mass., who predicts his company may have to ask employees to kick in more for other benefits to compensate for the cost hikes in medical coverage that Somerville is absorbing.

Needs versus costs

The attractiveness of a job often is defined by which employee benefits are provided, sometimes even more so than take-home pay. "Whether we like it or not, employees view benefits as part of their compensation," notes Jim Summers, director of compensation and benefits for Wickes Lumber, based in Vernon Hills, Ill., which employs 6,000.

What benefits are expected from companies also has gotten more complex, as the worker pool changes and employers come to rely more heavily on women and seniors whose health and lifestyle needs are unique *(see box)*.

Some of these, such as allowing employees to work flexible hours, cost dealers very little. Others, such as repayment for fitness/wellness preventive measures, can be exorbitant.

However, there's a limit to what benefits employers can afford to provide. Summers alludes to a 1988 Home Builder Survey, conducted by a Chicago-based compensation consultant firm and based on information supplied by 22 competitive retailers (including Wickes), that showed their median cost of benefits to have risen to 32.14 percent of total payroll. (The identities of the surveyed dealers, who have exchanged data for more than a decade, were confidential.)

The 'Cafeteria' approach

The retailers contacted for this article all offer comprehensive medical coverage and life insurance for full time employees. The majority now has a 401(k) retirement plan into which employees can contribute a percentage of their pretax income, and tuition reimbursement.

That's where the similarities end, though. Individual and family dental coverage is becoming more common, but certainly isn't universal. Thompson Enterprises and Holmes Lumber are among the dealers looking at long-term disability, still a rarity in this business. Such "fringe" benefits as eye care or elderly dependent care are virtually nonexistent.

A recent poll of 1,000 Americans by EBRI and The Gallup Organization found that 53 percent thought their employer should play a *primary* role in helping parents with child care. And several retailers—Wickes Lumber; Scherer Brothers in Brooklyn Park, Minn.; Levy's Lumber & Building Centers in Louisville; the 50-store Handy Andy Home Improvement Center in Schaumburg, Ill.—are investigating child care, a benefit that's "definitely going to happen," predicts Phillip Levy, president of the five-unit eponymous company. "It's necessary to get good people."

TAPJAC, the 12-store chain based in Carthage, Mo., is among the growing number of companies that provides child care and a host of other benefits which are paid for partially by employees through payroll deductions under Section 125 of the Tax Code.

Commonly referred to as the "cafeteria" approach to benefit provision, this practice is likely to become more prevalent as a way for dealers to offer their employees more benefits choices without incurring considerably more financial risk.

Employees also appear to accept the notion that their companies can't pay for everything. For example, 250 of Thompson Enterprises 600 workers participate in that company's Section 125 program. "It allows us to offer benefits more to what the individual employee needs," says Phillips, the company's benefits coordinator, who adds that this kind of approach could help narrow the benefits gap between single and married employees.

Will benefits be taxed?

Lurking in the background is the prospect that state or federal governments may remove the tax-exempt status of benefits received (*see story, p. 44*). "We currently aren't offering anything under 125, and I think these will probably diminish because the government will find some way to tax them," explains Earl Rasmussen, treasurer for the 42-unit Menard Cashway chain based in Eau Claire, Wis.

Some dealers, like Levy of Levy's Lumber, believe further taxation on benefits would be political suicide for elected officials. But the majority of dealers *NHCN* interviewed is convinced some form of benefits tax is inevitable. What's surprising is that these same retailers don't see this as necessarily a bad thing.

"If all benefits are taxable, then you're not going to want things you don't use," says the benefits manager for a New York-based dealer that is investigating providing some plans, such as dependent care repayment, under 125.

"As you begin to shift your costs to employees, more of them become aware of the value of benefits, and are more cautious about using them," adds G. Richard Russell, president of the three-store Millard Lumber in Omaha, Neb., whose 200 employees can pay into a "flexible spending account" for dependent care and some medical.

Government to the rescue?

But offering benefits under Section 125 doesn't eliminate the financial risks for employers completely. Under new regulations covering all medical reimbursements, an employer has to set aside and have available 100 percent of what it would take out of a worker's paycheck *for the full year*.

"There's company risk associated with 125s," says Paul Van Dyne, director of compensation and benefits for Payless Cashways, the 195-unit chain based in Kansas City, Mo., which has one of the more extensive benefits programs in this industry.

In fact, Van Dyne says his company hasn't developed a day care plan because most employees, especially those in the lower income bracket, can get higher payback through the Dependent Care Tax Credit on their income tax forms.

Gerry Boschwitz, the president of Plywood Minnesota in Minneapolis, refers to providing child care under 125 as a "nightmare to administer." But the 13-unit company now complies with new Internal Revenue Service rules that allow up to $5,000 of an employee's pretax income to go towards child care expenses.

As these two examples indicate, retailers are looking toward federal, state and local governments to provide benefits and services that are paid for out of general revenues by the entire populace.

Holmes Lumber, mentioned above, is able to contemplate discontinuing its employee health care coverage because, says personnel manager Horne, the county currently provides free hospital and out-patient services. "Some of our employees, in fact, won't work past a certain number of hours so they don't disqualify themselves from county benefits," she says.

The aforementioned EBRI/Gallup survey found that 69 percent of those polled would be willing to pay $50 more in taxes annually for government-supported child care programs; 21 percent would pay $200 or more. Government assistance, in the form of subsidies or tax breaks, is seen by some dealers as essential in the area of health, whose costs are becoming more than many companies can bear and are affecting employers' ability to offer other benefits.

These costs have led to a deterioration in the provision of health care nationwide: currently, between 31 million and 37 million workers have no medical coverage; 40 percent of these are employed by companies with 25 or fewer employees.

"While I don't expect the government to do much more, I don't think it will tolerate this number of uninsured employees walking around now," says Van Dyne of Payless.

"There will be enormous changes in medical care and delivery in the '90s, and I foresee a strong move towards mandated coverage and, probably, rationed services," predicts the New York-based retailer. "Maybe like they have in Canada."

The Canadian system covers all hospitalization and major medical through corporate and individual taxation. However, this hasn't led necessarily to a reduction in costs to employers. According to Donna Luke, manager of compensation and benefits for Beaver Lumber, Canada's largest building materials chain, the Ontario Health Insurance Plan (OHIP) on Jan. 1 eliminated the premiums it charged individuals and replaced it with a higher tax on employers.

Any provision of benefits by the government inevitably would lead to increases in paperwork, some-

Dramatic changes in the complexion of the work force, coupled with a whole new set of employee needs, are altering the benefits picture:

- Currently, at least 1.5 million youngsters, and possibly up to 3 million, come home from school to an empty house because both parents work. But **child care services** have escalated and average $3,000 annually per family. In response, 4,300 employers last year were offering some form of child care assistance, compared to 600 in 1982.

  Last June, the Senate passed the Act for Better Child Care Services, which allocates $1.75 billion in grants to states for subsidies. The House passed a similar bill in October, but joint legislation has yet to pass.*†
- **Child care, flexible hours, prenatal provisions** and **parental leave** have become benefit hot buttons, as more women draw a paycheck: by the year 2000, as many as three-fifths of all eligible women could be in the work force, compared with around 45 percent last year.*
- In 1990 there are 20 people over the age of 65 for every 100 aged 18 through 64; that number is expected to shoot up to 30 per 100 by the year 2020. **Elderly care**, then, has arisen as one of the newer benefits being sought. This is especially significant because, according to Sen. Jay Rockefeller (R-W. Va), chairman of the Bipartisan Commission on Comprehensive Health Costs, half of all health care costs—which totaled $600 billion in 1989—are spent in the last three months of an average person's life. Currently, an estimated 200 major employers are now providing aid to employees who care for aging relatives.† ††
- More workers and their employers are taking it upon themselves to build up a retirement nest egg. In 1988, 27.5 million workers—nearly a quarter of all employees—were covered by their companies' **401(k) pension plan**, compared to 7.1 million in 1983. Of that total, 56.9 percent chose to participate by contributing through payroll deductions, compared to 34.5 percent five years earlier.††

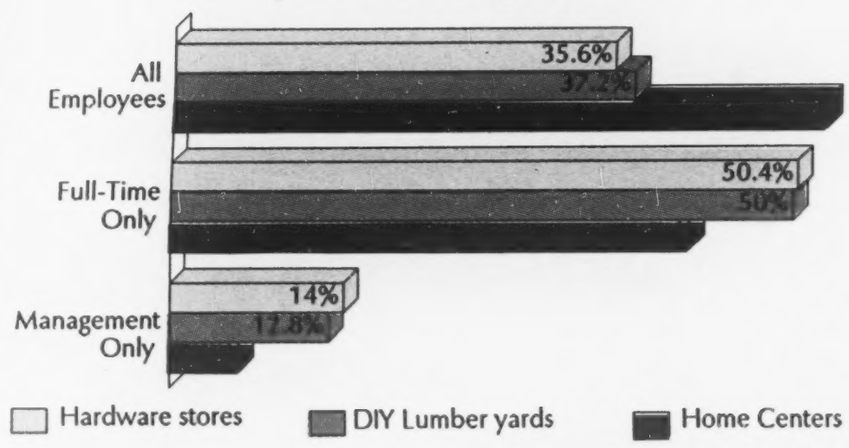
Sources:
*†The Conference Board; ††Employee Benefit Research Institute; *The American Hardware Manufacturers Association*

Most hardware stores, home centers and lumberyards usually provide their employees with major medical insurance, as well as other benefits that include paid vacation days. But they are far less likely to provide benefits for dental or eye care, disability, life insurance or profit sharing, according to the *1989 Compensation Study*, recently released by the National Retail Hardware Association, which culled data from 1,072 hardware stores, 84 home centers and 243 lumberyards nationwide.

The study also evaluates comprehensively such benefits as paid vacation days for full- and part-time employees, merchandise discounts and hourly wages by store type, geographic location and annual sales. It found that home centers appear to be a bit more generous than their counterparts in providing certain benefits, and that the more sales a store generates, the more benefits employees can expect.

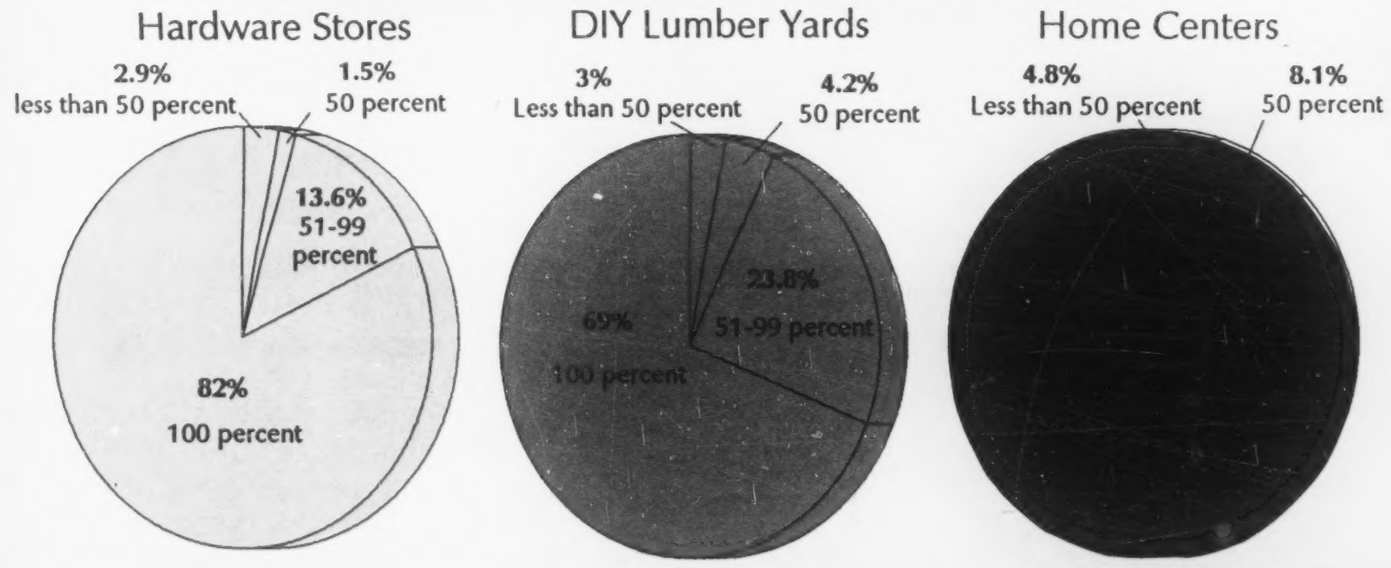
Less than 20 percent of all stores polled offer employees profit sharing. However, 53 percent of the home centers queried provide this benefit, compared to 13 percent of hardware stores and 40 percent of lumberyards. Even fewer stores—17.2 percent—provide a pension plan to workers, although more than half of the home centers in the survey have this benefit.

Of the stores that offer profit sharing, the percent that give it to:



Source: National Retail Hardware Association

Disability Insurance (percent paid)



Source: National Retail Hardware Association

Nearly three-fifths of the home centers polled provided some disability coverage, compared to only about one-fifth of the hardware stores and two-fifths of the lumberyards. This corresponds to data showing higher volume stores more likely to provide disability: 56 percent of stores with annual sales of $5 million or more offer the coverage, compared to only 37 percent of those with sales between $1 million $3 million.

thing dealers definitely would balk at, based on their opposition to Section 89, which would have forced them to justify giving higher-paid employees more benefits. That bill was vetoed by President Bush, but some in Congress are seeking new life for the regulation.

The uncertain future

Regardless of what the government does, it appears that in the next 10 years and beyond, retail employers will be passing more of the cost for many of their non-health care related benefits to employees, while imposing tighter controls on employer-funded medical plans.

"What we want to do," says Russell of Millard Lumber, "is to guarantee that an employee isn't wiped out by a catastrophe; but for lesser medical problems the employee is going to have to pick up more of the cost."

"The No. 1 thing is medical care, which will determine what we can do with the rest of our benefits," adds Van Dyne of Payless, who explains that his company in January finalized its listing of Preferred Provider Organizations (PPOs) from which its employees in different states can choose. "We're developing partnerships with physicians and providers on those lists so our costs can be stabilized and everyone wins."

More companies' medical plans are self-funded, which gives them cost control and flexibility to write their own coverage. TAPJAC is also looking to rein in medical costs through the "case management" approach, where specific illnesses are individualized, and the severity of the illness determines the extent of employer coverage.

The chain currently is looking into a plan of this nature for prenatal care, according to vp-finance Stan Schmidt, who also foresees the need to develop some kind of benefit to bridge a retired employee's medical insurance and his eligibility for Medicare.

There appears to be a consensus among retailers that while some benefits are simply too extravagant for their companies to fund completely, health care is not one of these, particularly in retailing, which, on average, has some of the lowest-paid employees of any industry sector.

"In retail, most people don't make a lot of money, so we're resisting these kinds of payroll deduction solutions," said the New York retailer. ◆

HMOs squeeze in on the competition

By Tom Neven

NATIONAL REPORT — If you thought you had a problem with escalating health insurance premiums, consider being forced by law to dilute your insured-risk pool, guaranteeing even further premium hikes.

Under Section 1310 of the federal Health Maintenance Organization (HMO) Act of 1973, any HMO can walk into a company and "mandate" that it take their business if it:

- Employs more than 25 people;
- Is subject to minimum wage laws, which means just about everyone but the U. S. military;
- Currently provides and contributes toward health benefits, and, most important;
- Receives "timely and written" notification from a federally qualified HMO operating in a geographic region where at least 25 of its employees reside.

the younger and healthier employees.

Consequently, the risk pool for the traditional health care plan is not only smaller, but it contains greater "risks" to the insurance company, further incentive for it to jack up prices.

This is exactly the situation being faced by Somerville Lumber, the eight-store chain in Waltham, Mass. It currently carries a 100 percent coverage policy by Blue Cross, but a local HMO is now "mandating"—the term for demanding business—with the company.

Somerville is the victim of heated competition in Massachusetts between Blue Cross and many HMOs. It dumped one HMO and switched to Blue Cross last September, and within a month yet another HMO sent its notice.

"We were able to beat them for one year, but now we have to take them," says

Being forced to take on an HMO, despite lower premiums for certain employees, tends to mean a larger bill for the company as a whole.

"Timely" is defined as "not less than 180 days and not more than 365 days prior to expiration of a current health insurance policy," according to Betty Ball, compliance officer in the office of prepaid health care at the Department of Health and Human Services in Washington.

Intended to spur competition, the law presents a problem for businesses in that being forced to take on an HMO, despite lower premiums for certain employees, tends to mean a larger bill for the company as a whole.

Attractive to the healthy

HMOs, by their very nature, have built-in costs savings. First, their risk pool is usually rated geographically, not by company. The larger the risk pool, the lower the premium.

Moreover, HMOs usually don't have deductibles and are more attractive to those who use health care services the least, usually Ed Burke, Somerville's controller.

He adds, though, that he would wait to see what the premiums would be before deciding on a strategy; Burke fears premium hikes for the Blue Cross policy as a result of the smaller risk pool. But, he is willing to wait and see if the HMO is even a better plan than Blue Cross.

Not all retailers are bothered by this HMO law, though.

Jim Summers, director of compensation and benefits for Wickes Lumber in Vernon Hills, Ill., says that HMOs haven't had a big impact on his company primarily because "we're [mostly] in a self-funded environment and [HMOs] can't compete with the costs.

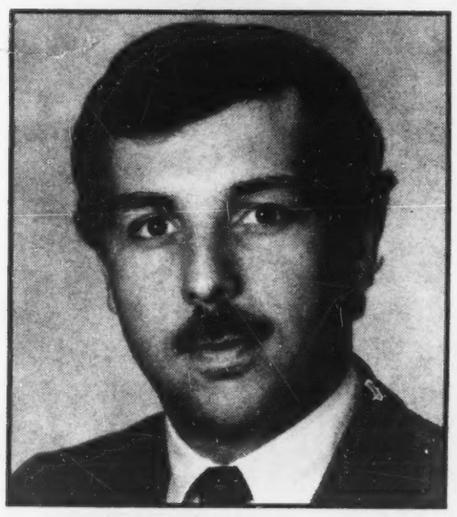
"Plus, we're all over the U.S., [Wickes has 195 stores in 33 states] and most of our stores will have 13 to 20 employees, so it's just not worth it for HMOs to come in here." ◆

Dealers find labor scheduling promotes productivity

By Jay Scansaroli

When Atlanta's Home Depot instituted a labor scheduling program several years ago, it was taking a step that has become more common in home center chains throughout the nation.

"The reason for the system is not necessarily to reduce payroll, but to schedule payroll at the best times to maximize its productivity," says Ronald M. Brill, chief financial



Jay Scansaroli

officer, for the $2 billion chain with 17,000 employees.

Modern labor scheduling techniques are being used by many smaller dealers, too. For several years, H&H Home Center, a $7 million operation in Seaside, Calif., has recorded its hourly rate of transactions.

The retailer then schedules cashiers to handle the volume of customers anticipated to flow through the registers throughout the day.

"This is a big area for us," says Mike Cole, general manager for H&H, which employs 61, 14 of whom are cashiers.

More scientific approach

Many retailers are discovering that, by reviewing labor standards, they can serve customers well and help harness labor costs. Retailers use time studies, videotaping and data collected from POS terminals to determine exactly how much time is spent performing various tasks.

For instance, Home Depot is now designing a computer-based system to make its labor management even more effective by expediting the labor study results to regional managers.

The system, which should be operational by May, will move the data from stores' computers over telephone lines to the chain's Atlanta headquarters. The calculated results then go back to regional offices via satellite.

Brill does offer a caveat to home centers thinking of refining their labor scheduling: "It's not as easy as it sounds. If you get too complicated no one understands it and it doesn't work."

But armed with such info, a retailer can figure out how many cashiers are needed per store, at every hour, to guide customers through checkouts quicker.

Home Depot uses time studies to assess how effectively employees allocate their time among various store functions. Cashiers, for example, are monitored to see how much time is spent in activities that retailers like Brill call "settling and greeting" customers, to see how long a sales transaction actually takes.

"We try to relate everything to sales," he says. If sales levels vary significantly among different stores, Brill might examine how much time each unit's personnel spends unpacking cartons. This way, a retailer can see if the receiving process is affecting customer service.

Cost savings significant

"Our growth is related to the excellent service we have," he explains. To provide that service, the stores must have the right number of employees doing the right things at the right times.

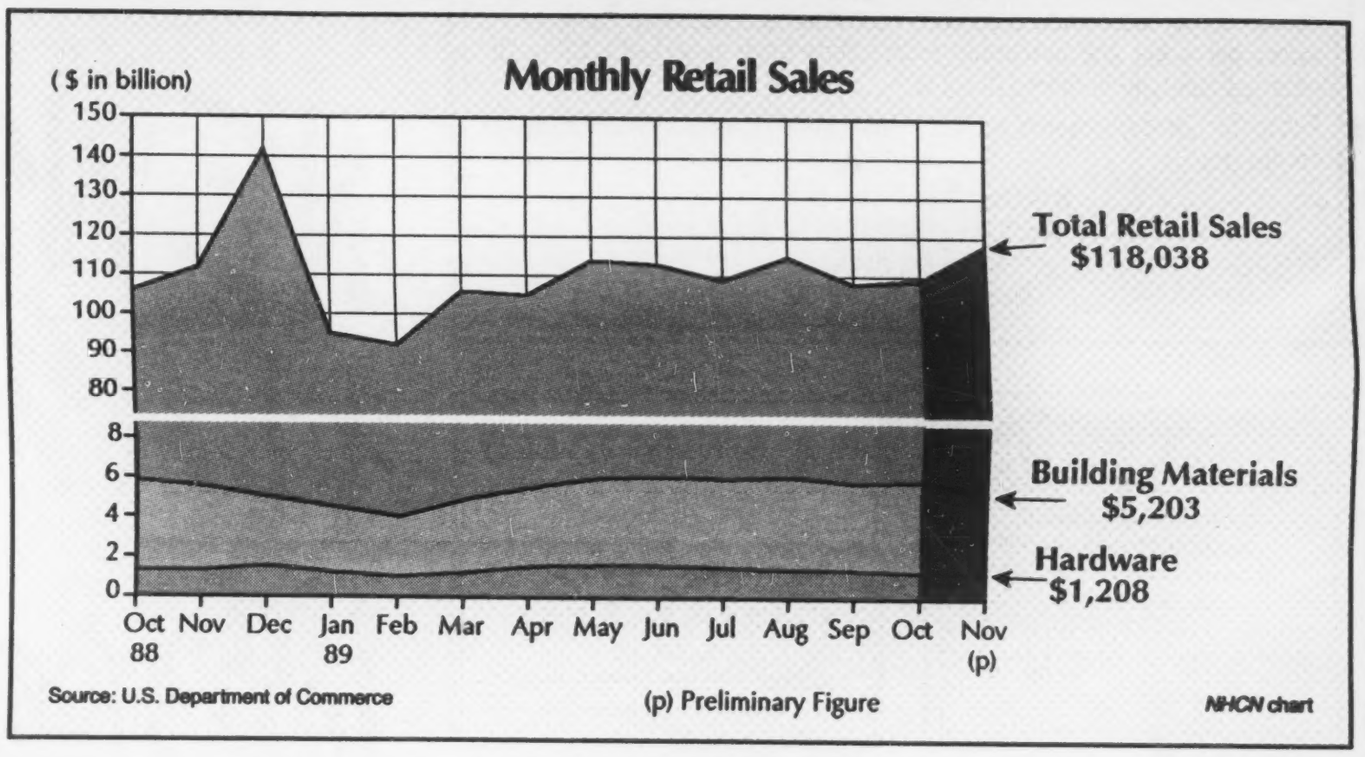
Payroll can be one-half to three-quarters of a dealer's total operating expenses, so managing the work force effectively is vital. Suppose a 100-store chain incurs an average of 2,000 hours worked per week, per store. If that chain experiences even a 1 percent loss in efficiency, that equals 104,000 hours per year. That's a waste of more than 50 full-time people, not to mention payroll dollars.

We've worked with a retail chain with sales of $130 million from stores in 10 states that knocked off $1.1 million from its annual $28 million labor bill through a program that custom fit labor coverage to its individual stores.

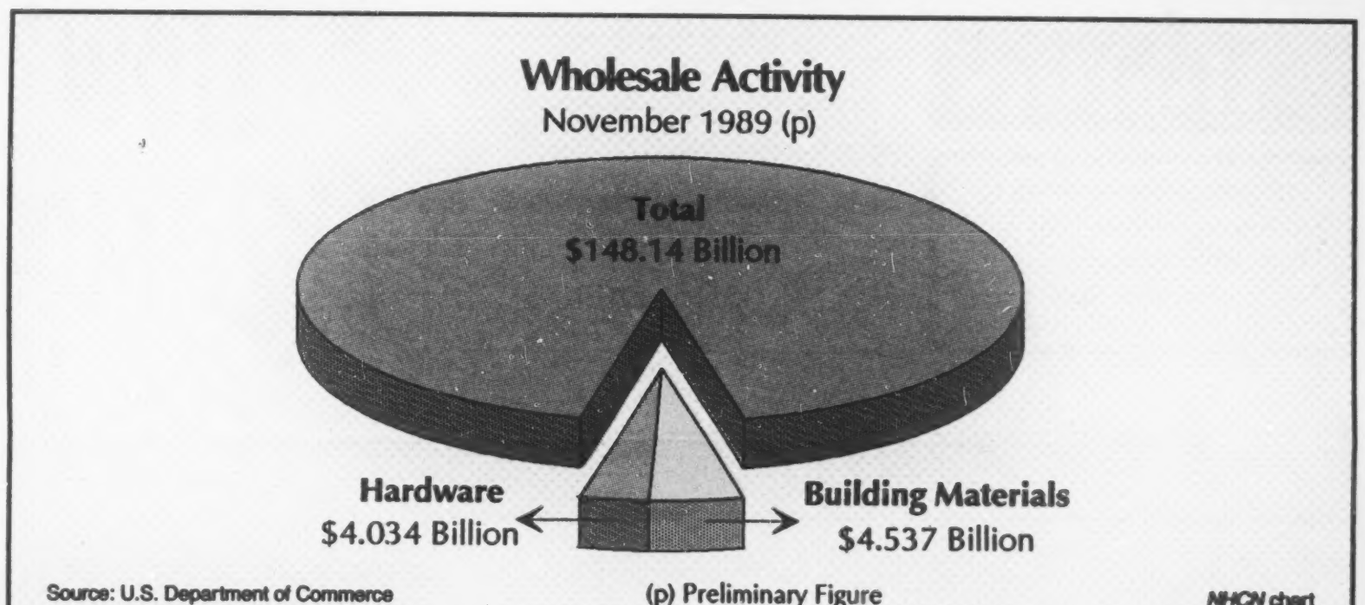
No wonder retailers are reviewing labor costs in such areas as checkout, receiving and the sales floor. ◆

—Jay Scansaroli is a partner with Arthur Andersen & Co., a New York-based accounting and market research firm.

Retail and wholesale sales of hardware and commodities fell marginally, on a seasonally adjusted basis, in November compared to the same month in 1988. But the housing market continues to deteriorate. The actual number of homes built in 1989—1.37 million—and single family units—904,000—was the lowest in seven years. The National Association of Home Builders estimates that home building will be flat this year.



Source: U.S. Department of Commerce (p) Preliminary Figure NHCN chart



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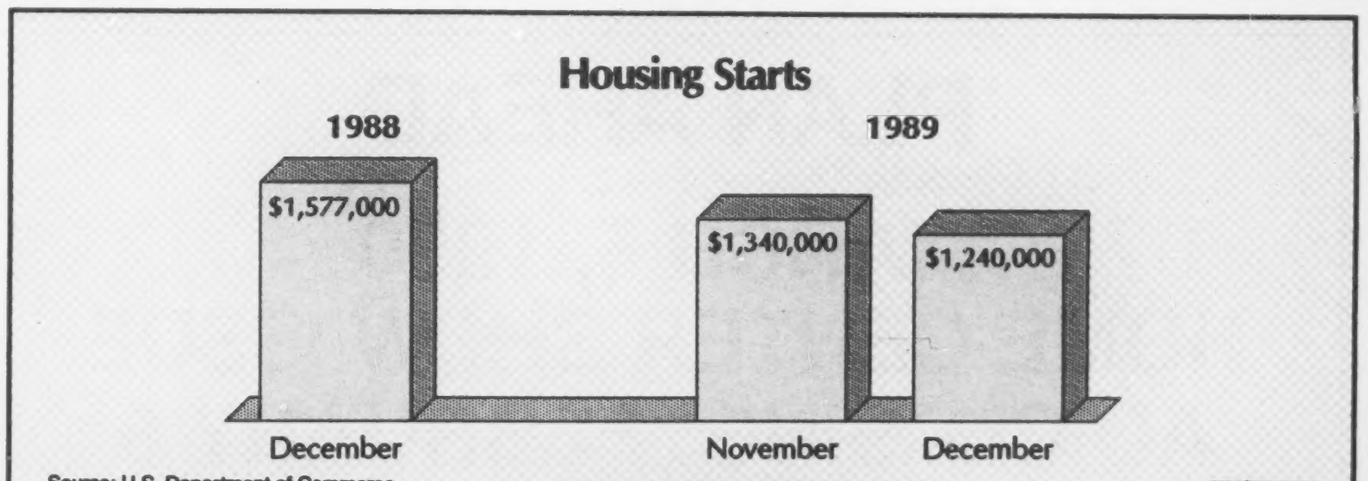

Source: U.S. Department of Commerce NHCN chart

Housing Affordability

	National Total		By Region (Nov. 1989) (p)			
	NOV 1988	NOV 1989 (p)	NE	NW	S	W
Affordability Index Composite*	112.5	105.8	75.2	138.1	109.2	69.8
Median Price Existing Home	$88,500	$93,000	$145,800	$70,900	$82,400	$150,200
Average Mortgage Rate	9.48%	10.12%	10.17%	10.23%	10.13%	10.04%
Payment as Percentage of Income	22.2%	23.6%	33.2%	18.1%	23.3%	33.8%
Median Family Income	$32,191	$33,482	$37,481	$33,629	$30,778	$35,429
Qualifying Income	$28,526	$31,657	$49,838	$24,356	$28,072	$50,786

*The affordability index is based on the five criteria listed above.

Source: National Association of Realtors (p)Preliminary figure NHCN chart

Weyerhaeuser halts support of rebates

(Continued from page 1)
they require them to offer discounts once the co-op exceeds a certain threshold in its purchases; the discounts are then passed on to dealers in the form of cash rebates while the co-op retains some money to cover operating expenses.

Other suppliers complain that the co-ops have come to rely on the distributors to do the selling and the marketing of the product as well.

The co-ops defend the programs as necessary to the survival of dealers. Reached last month, the major buying groups were determined to find replacements for Weyerhaeuser as they challenge the company's plan—laid out in the December letter—to circumvent them and attempt to sign dealers directly.

"I've told all my members to switch their billing to Georgia-Pacific," said Ray Treen, vp-building products for the Fort Wayne, Ind.-based Hardware Wholesalers Inc. Its 2,800-member dealer base purchased roughly $60 million from Weyerhaeuser distribution last year.

"As far as I'm concerned, [Weyerhaeuser] has written us off, so I've written them off," said Treen, whose company at one time was Weyerhaeuser's largest customer.

Bernie Day, ServiStar's general manager of building materials, was still attempting in mid-January to convince Weyerhaeuser that they made the wrong decision. The Butler, Pa.-based buying group, with 3,700 members, purchased some $50 million from Weyerhaeuser in 1989.

"I don't think they fully understand the magnitude of the decision in terms of lost business," he said.

Big numbers at stake

Of the four major hardlines buying groups, ServiStar and HWI generate the most sales from building materials. Dealers affiliated with the latter made $500 million in purchases (50 percent of the co-op's overall sales) in 1988; ServiStar's dealers bought $495 million (46 percent of sales). Dealers belonging to the Cotter co-op bought $125 million in commodities in 1988; those with Ace $104 million.

Cotter, which has no rebate program, expects no disruptions in its vendor relations. Ace, however, does have a program, of which 10 percent of purchases have been supplied by Weyerhaeuser, according to Ace's marketing manager for lumber and building materials Bob Maurer.

He added that even before Weyerhaeuser made its announcement, Ace, which recently opened a lumber warehouse in Beaverton, Ore., was planning to step up mill-direct shipments from Weyerhaeuser's mills in Washington state.

But for those without the ability to receive direct shipments, regional distributors are certain to take on increased significance. Treen of HWI, for example, said midwestern distributors such as Hager, Arling, Babcock and International Paper will be getting more of the co-op's business.

The largest benefactors, however, could be major concerns like Georgia-Pacific, which has 143 DCs; Sequoia Supply, with 46 DCs, and MacMillan-Bloedel, with which a number of the co-ops have set up distribution arrangements.

"We have found that our co-op customers are among the best and most supportive we have," said Sam Gaddis, Georgia-Pacific's director of national account sales.

Sequoia, based in Irvine, Calif., recently acquired the building supply conglomerate Grip-Rite *(see story, page 3)*, whose many divisions serve to fill gaps in Sequoia's national reach. Grip-Rite's main concern is nail production, but its subsidiaries sell a variety of materials, including paneling and roofing materials.

Who's doing the work?

"Obviously, HWI will want to talk about nails," said Sequoia's national accounts manager, Rick Kost, who was looking to sign more co-op business. He explained that until now, Weyerhaeuser has supplied this product to many of the co-op's dealers.

Kost said he supports the rebate programs, that they are a reality of doing business. In return, he said, the co-op provides him, in effect, low-cost advertising by promoting his products among dealers.

However, the abovementioned Northeast supplier insisted the co-ops really don't help his business enough to justify give-backs. He said it is still his own salesmen that must push products to each individual dealer.

"The only thing the co-op does is give you a hunting license," said the supplier. "The rest is up to us."

Maurer of Ace and others disagreed with this assessment. The Ace official said his regional representatives also promote suppliers products. Still, he lamented, "We obviously didn't convince Weyerhaeuser of our worth and that's a shame."

Whether or not others will follow Weyerhaeuser's decision remains to be seen.

Furman compared Weyerhaeuser's making the first move to "a friend who stands in the middle of the road. If he doesn't get run over, you join him."

At the very least, said Al Leitschuh, executive director of the National Building Materials Distributors Association (NBMDA), the move will cause all commodities suppliers to re-evaluate their dealings with co-ops. "I think everyone is going to look at what Weyerhaeuser did very carefully," he said. "We'll see about the outcome."

Leitschuh added that he saw "nothing wrong" with the Weyerhaeuser move.

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Part-Timers fill the workforce void 35

Denny designs start-up

'Builders Express' to pinpoint smaller markets

By an NHCN staff editor

SAN ANTONIO, Texas — Frank Denny's hiatus from the home improvement industry apparently will be short-lived.

The founder and chairman of Builders Square who resigned from that chain last year, Denny is proposing to start up a new venture called Builders Express.

The 54-year-old Denny will be chairman of what is fashioned to be a chain of as-yet-unnumbered home improvement stores aimed at dominating markets of under 200,000 people, much the same way the discounter Wal-Mart controls a good chunk of America's rural market.

The company had yet to secure any sites by the first week of February. "A number of leases are being negotiated," said Sean Lee, the former W.R. Grace and HomeClub executive who will be president of the new venture.

Because of a non-compete clause in Denny's contract with Builders Square's parent K mart prior to his departure last year, Builders Express units will not "open in markets which will impede that agreement," an industry source said. That contract, this source said, expires in a year.

When Denny was running Builders Square, real estate officials from that chain and K mart expressed interest in operating in smaller markets with downsized versions of Builders Square units.

Photo courtesy K mart

Frank Denny

The vendor letter, read over the phone to *NHCN* by Lee, who said it was sent out Jan. 13, outlined the venture whose stores will specialize in brand name merchandise sold at

(Continued on page 53)

Home Depot's 1989 sales to top industry, analysts estimate

By an NHCN staff editor

NEW YORK — The Home Depot is expected to supplant Lowe's Cos. as the industry's largest chain in sales, based on 1989 results, according to Wall Street analysts.

The Atlanta-based operator of 118 warehouse-sized home center stores in 26 states reported net sales of $2.758 billion for fiscal 1989, ended January 28, 38 percent more than in fiscal 1988.

A spokesman at Lowe's said that their sales results for fiscal 1989 would not be available until March 5. But several investment analysts that specialize in the N. Wilkesboro, N.C.-based chain believe that its sales will fall short of Home Depot's.

"I've got Lowe's at between $2.64 billion and $2.65 billion for fiscal 1989," says Don Trott, an analyst at Dean Witter who covers Lowe's. Drexel Burnham analyst Ruth Kelter estimates Lowe's net sales will fall around the $2.6 billion mark for the period.

Robert Curran, who follows Lowe's for Merrill Lynch, estimates its 1989 sales to be $2.648 billion, based on its 9-month earnings numbers combined with monthly estimates for November, December and January.

And Curran sees Home Depot pulling further away. "Lowe's will see healthy growth in its retail business—around the high single digits—but its professional customer sales, which are 36 percent to 38 percent of their business, will be flat this year," he says. ◆

Canada lumber controversy

Wholesalers: mill-railway pact hikes prices

By Gary Ruderman

NATIONAL REPORT — Private agreements between western Canadian spruce mills and Canada's largest railroads may increase prices of lumber coming to both U.S. and Canadian markets, according to wholesalers who say the accords unfairly threaten their businesses.

The legal agreements, signed within days of Canada's rail deregulation Jan. 1, effectively eliminate volume freight rates to wholesalers in favor of confidential rates just for Canadian spruce mills, predominantly in British Columbia. This arrangement, wholesalers say, allows mills to boost prices by as much as $13 to $15 per thousand board feet.

When wholesalers had the same contracts as the mills, officials explained, rebates for volume shipments were supposedly passed onto retailers and other customers. Now, wholesalers charge, mills are pocketing that rebate.

Instead of using a published rate of $60 per thousand board foot for shipping spruce from British Columbia to Chicago, for example, wholesalers contend railroads are signing non-public agreements at $57 or $58 per thousand board foot.

Critics of the private agreements fear the following consequences:

- mills will play favorites, passing on rebates to some wholesalers and not to others;
- mill salespeople will invade a wholesaler's accounts, offering the rebate as an inducement for direct shipments, and
- with a consolidation in the Canadian mills, the remaining companies have created profit centers out of distribution centers and will seek larger, retroactive rebates.

A recent episode of this tale blew through the U.S. Feb. 2, when anticipated rate reductions for four southeastern U.S. markets from Canada's premier shipper, Canadian National Railways, Ltd., did not appear. According to *Random Lengths*, the forest industry newsletter, both wholesalers and retailers in the south-

(Continued on page 13)

David Cohen walks away from Somerville

By an NHCN staff editor

WALTHAM, Mass. — David Cohen, 35, president and chief operating officer of the Payless Cashways subsidiary Somerville Lumber, left the company on Feb. 3, following a week's leave of absence.

Harold Cohen, 59, will take back the responsibilities and titles he passed on to his nephew nearly three years ago. At the time, Harold had given up the duties to become co-chairman with his brother Melvin, 67. The latter remains in that post.

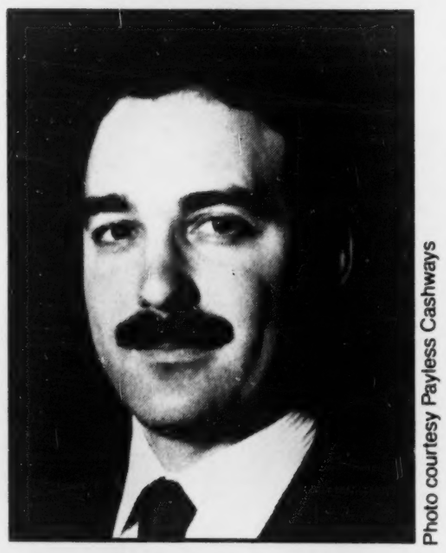

Photo courtesy Payless Cashways

David Cohen

Employees at the eight-unit Somerville were told that David left due to personal reasons. He could not be reached for comment. Harold Cohen, while declining to give reasons for his nephew's departure, said: "David has left and I regret that very much. It leaves a void."

"We are not only a business but have been a business that is run by family for many years."

Neither David Stanley, chairman and ceo of the Kansas City, Mo.-based Payless Cashways, nor president Larry Kunz were available for comment.

David Cohen, appointed president on April 1, 1987, had spent 12 years at the company.

Most recently, he oversaw the opening of Somerville's 336,000-square-foot, $20 million distribution cen-

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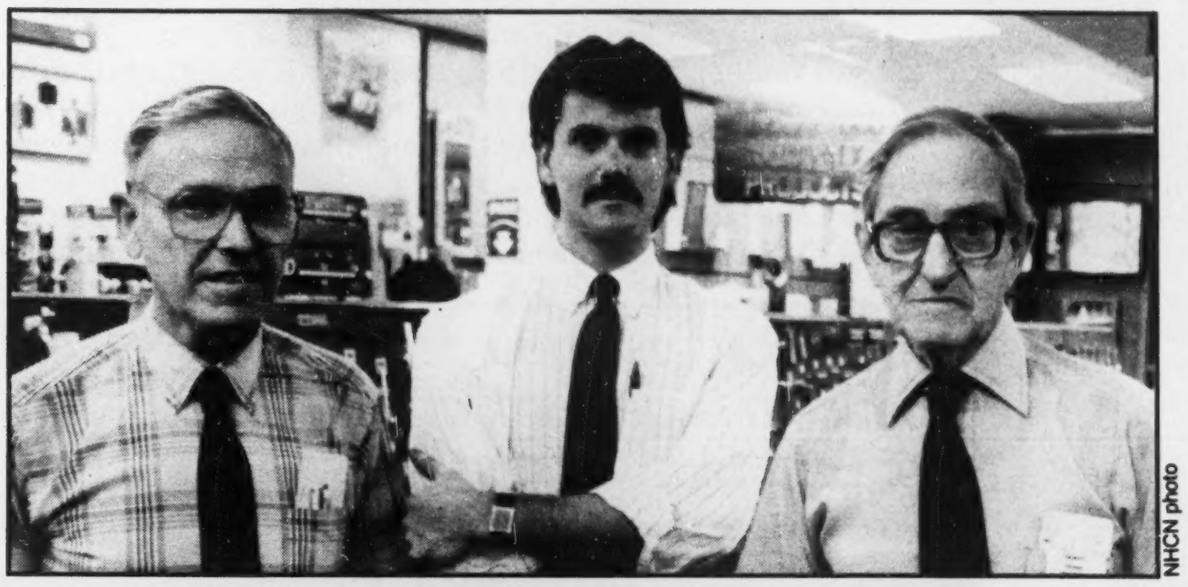
Lloyd to close up shop; Sherman leaves B&D —page 56

INDEPENDENT

Oldest employee, ex sole proprietor, marks Pleasants' 75th anniversary



NHCN photo

Pleasants owner and oldest employee James Hatcher Sr. (right) with James Hatcher Jr. (left), company president and James Hatcher III, director of purchasing and advertising.

By John Sinisi

RICHMOND, Va. — Valentine's Day marked the 75th anniversary of Pleasants Hardware, and the 93rd birthday of the company's former sole proprietor and oldest employee.

James Hatcher, Sr. was hired by founder H. A. Pleasants in 1915. They worked together until 1952, when Pleasants sold his half of the business to his first and most trusted employee.

Hatcher kept the recognizable Pleasants name and its motto, "Most Anything Since 1915," and built the one-store operation into a $23 million company. Hatcher sold Pleasants to Richmond-based spice manufacturer C. F. Sauer & Co. 13 months ago who now operate Pleasants as a wholly owned subsidiary.

Hatcher instilled in his employees the same desire for quality service that Pleasants instilled in him 75 years ago.

"When we first opened the doors, Mr. Pleasants told me, 'When that first person comes in here, we have to give him the best help we can, even if he only wants a pound of nails."

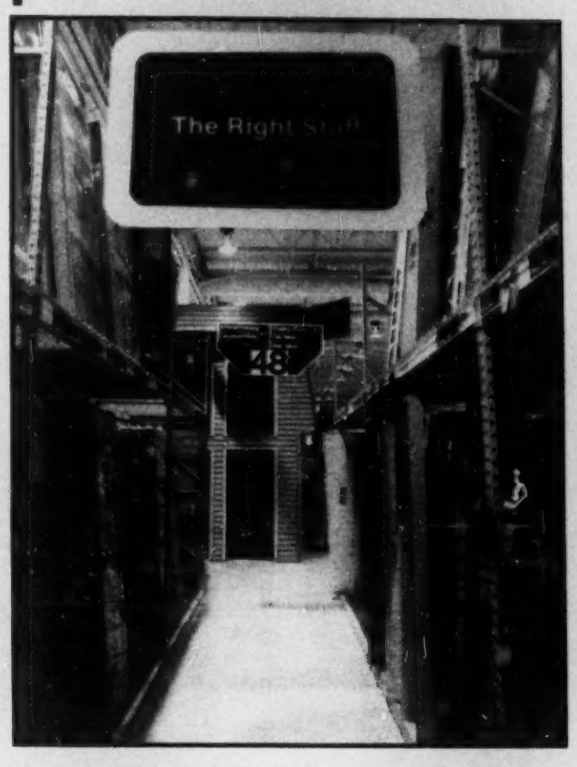
The owner was joined in the festivities by James Hatcher Jr., 66, the company president, and James Hatcher III, director of the store's purchasing and advertising departments.

As the company moves into its fourth quarter-century, Hatcher Sr.'s progeny have definite ideas on the direction the company should take in order to survive the next 25 years.

"We're in the earliest stages of considering expansion into the consumer side of the business," says president Hatcher Jr., who notes that retail transactions comprise 20 percent of the company's business. "In order to cover our market, we're going to have to move in that direction quickly."

That aside, Hatcher Jr. points out that the store is doing roughly 2,000 transactions a day, "which is not bad for opening at 7:30, closing at 5:30, and staying closed on Sundays," he says. ◆

Knox Lumber's new ad campaign to debut price and item ads



Knox Lumber projects its marketing theme, "The Right Stuff," in its Eagan, Minn., unit. NHCN photo

By an NHCN staff editor

ST. PAUL, Minn. — Knox Lumber's first ad campaign with its new agency breaks Feb. 20 in the Twin Cities markets.

The new radio and TV campaign, aimed at repositioning Knox's stores as project centers, will be the 11-unit chain's first major use of vendor cooperative funds for TV advertising, says John Foley, a partner in the Twin Cities agency Case Foley Sackett, which capped the Knox account last month.

For the first time Knox will feature price and item ads in its TV commercials, but Foley insists the use of products—where Knox used to push image—won't cheapen either its image or the quality of the chain's award-winning ads.

He would not go into what the commercials would look like, but said they would retain the "style and tone" of the past with a new positioning of Knox as the "project center."

Case Foley Sackett, a four-year-old agency, won Knox's business after the home center chain's longstanding agency—Fallon, McElligott, Rice—resigned it. It was a mutual and agreeable split, said Mike Carver, vp and gm of Knox.

Those close to the chain and agency said Fallon, McElligott, Rice—which started up with Knox back in 1983—felt it accomplished what Knox

(Continued on page 54)

Grossman's reports bright fiscal '89 picture

By an NHCN staff editor

BRAINTREE, Mass. — Grossman's bucked the weakened New England economy and turned in one of its better profit performances in recent years.

The 156-unit chain reported net income of $15.8 million on sales of $1.05 billion for the year ended Dec. 31, 1989. The profit represents a 19.2 percent improvement on 1988's bottom line of $13.2 million.

Total sales, however, reflect a 7.8 percent decline from last year's total of $1.14 billion. That figure includes the sales of the company's 28-store Northwestern division and its 59-unit Moore's division up to the divestiture of both earlier last year.

By contrast, sales from ongoing divisions for the full year were $800.7 million, 4.2 percent ahead of last year's $768.4 million from the same stores.

Proceeds from the sales of the two divisions in third-quarter 1989 totaled $106 million, of which $56.8 million was used to retire a sizable piece of the company's long-term debt.

The debt reduction included retirement of $33.9 million in Grossman's 13 percent debentures, $12.2 million of its 14 percent debentures, and the retirement of $10.7 million in outstanding mortgages connected with the Moore's transaction.

The paydown saved Grossman's $7 million in interest expenses. That, combined with trimmed operating expenses and better purchasing policies, helped the firm's financial picture, according to Grossman's executive vp-administration Stanley Berman.

New programs helped profits

Bruce Weitz, the supermarket retail veteran who became Grossman's executive vp-eastern division manager in March 1989, played a significant role in guiding that territory back to financial health.

"There are many new programs being put into place that are under Bruce's hand," Berman notes. "It's hard to quantify the role he plays other than to say it's a very important one."

Since Weitz has come aboard, Grossman's has gone through quite an overhaul. Its field staff has been trimmed and reorganized; its merchandising and marketing responsibilities have been centralized; a new inventory replenishment system is being devised to increase turns dramatically; and a new planogram that affords a 30 to 50 percent increase in inventory presentations is well underway.

Grossman's fourth quarter results offer a dramatic example of the company's turnaround. Quarterly net income of $1.3 million is more than double the $586,000 logged for the same period in 1988. And the company managed to achieve this with fourth-quarter sales of just $182.5 million, down 36.1 percent from $285.8 million in the final three months of 1988.

Comparable store sales in the fourth quarter were 1.5 percent less than the same period in 1988, the company notes. But the decline in sales

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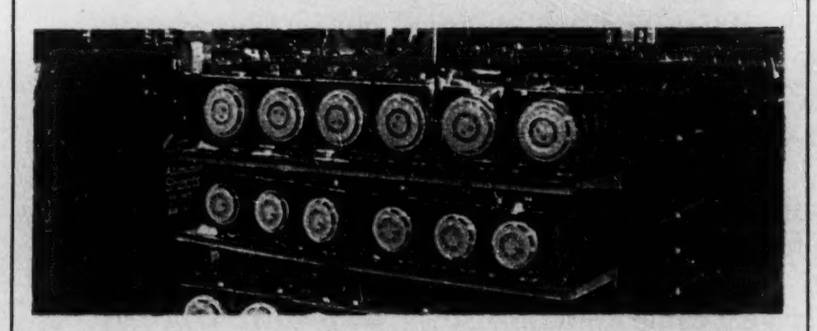

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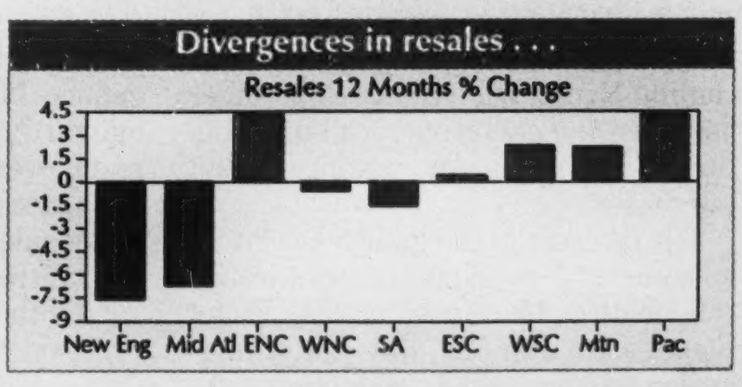

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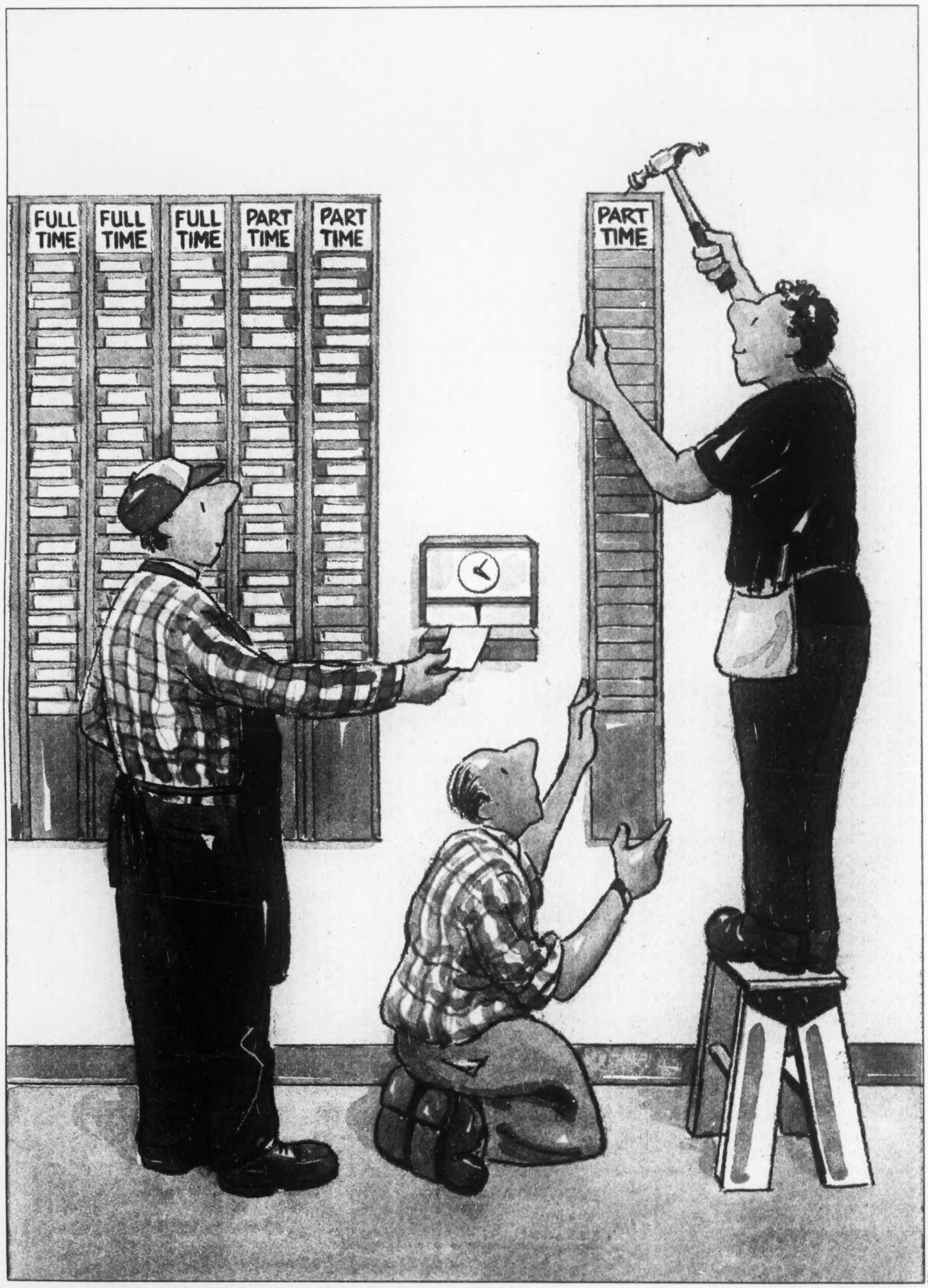
Part-timers filling the workforce void

This article was reported by executive editor John Caulfield, senior editor Gary Ruderman, associate editors Tim O'Malley, Tom Neven and John Sinisi, and written by Caulfield.



Nishan Akgulian

NATIONAL REPORT — Last month during a roundtable discussion at the Michigan Lumber Dealers Association convention in Grand Rapids, Mich., two retailers insisted adamantly they would not hire part-time employees. One balked because part timers showed no "work ethic" or "company loyalty"; the other because his store was competing against K mart and he couldn't get part-timers to work nights.

That resistance, though, may be weakening for most dealers and wholesalers whose expanding work force over the next several years is likely to be more populated with part-time help.

Employers in this industry, faced with filling jobs in a tight labor market, are turning to part-timers more than ever. One of California's largest chains, for example, wants to boost its number of part-time employees to 70 percent of its total work force from the current 50 percent, albeit gradually "so that we don't create a panic among our full-time help," says this chain's chief administrative officer.

"Several years ago, we made a pretty significant move to part-time people, and frankly have found a lot of strong applicants who are qualified to do in-store sales," notes Chuck Bender, president of the 17-unit Busy Beaver chain based in Pittsburgh, who adds that many of his part-timers "have been with us for years."

Forty percent of the 15,000 employees working in Builders Square's 140 warehouse units are part time. One quarter of the 6,000 employees at Wickes Lumber also are in this category, and most of these stick around for three or four months at a stretch, says Ric Morphet, vp-administration for the Vernon Hills, Ill.-based chain of 190 stores.

"I've always been a strong advocate of part-timers," says Barry Minkin, director of human resources for Ply Gem, the New York-based distributor and manufacturer. "They [represent] a large source of capable labor and tend to be very enthusiastic. Most are looking to make a long-term contribution."

New groups enter the work force

Retailers, in general, like part-timers *(see box page 36)*.

And with the perceptible decline in available full-time male workers aged 18 to 54—the employee group represented in the greatest number in this industry—home improvement dealers and distributors are filling the void by hiring women, teenagers and, most important, seniors. A good portion of these can work only certain hours, days, weeks or months.

The makeup of the part-time work force varies, depending on how constrained the job market is in a given region. But there are certain traits emerging. Stanley Frahm, the president of Stanline, a California-based commodities distributor that's seen its

(Continued on page 36)

part-time work force increase steadily, hires part timers mostly for inside sales and administrative posts. He says these jobs are being filled by women 2 to 1.

Five of the 17 people employed at Biener Hardware, an independent dealer in St. John, Mo., are part-timers, one of whom is a teenager, a segment of the work force most retailers in this industry have shied away from previously but are now turning to cautiously.

"If you go for the straight A student, you won't have any problems," states Biener Hardware's co-owner Roland Monson. "If he's worked hard for the A's, he'll work hard for you. Plus, he's smart, he'll catch on fast and learn more."

Training is imperative

All these new people coming into the industry, regardless of their intelligence, need to be trained, which is one of the reasons some dealers and distributors have been reluctant to take on too many part timers.

The 157-unit Grossman's is one chain that is switching to more full-time help because of what it costs to train workers, states Stanley Berman, executive vp-administration for the Braintree, Mass.-based company.

However, dealers insist their part-time employees must be incorporated, through training, into their overall customer service strategy that is viewed as a key to the company's survival.

For example, 133 of the 936 workers employed at the 10-store Dixieline Lumber in San Diego are part-timers, many as cashiers. "They are important because cashiers are the last people our customers see," says company president Bill Cowling.

Those companies that use part-timers usually establish some level of training "to make them as effective as possible in their technical thinking skills," says Peter Rumwell, director of personnel for the five-unit Henry Bacon Building Materials in Bellevue, Wash.

That training effort can take one of two forms. Forty percent of Essen Hardware's 250 employees are part time, and all of them went through a 90-day probationary period during which they worked with full-time workers to gain product knowledge, according to Max Hagerman, general manager of the Brentwood, Mo., chain.

Busy Beaver and Wickes Lumber have structured training programs for part-time salespeople that include booklets, manuals and videotapes that the part timers can study at home. Busy Beaver's workers are tested to assess their competence and product knowledge.

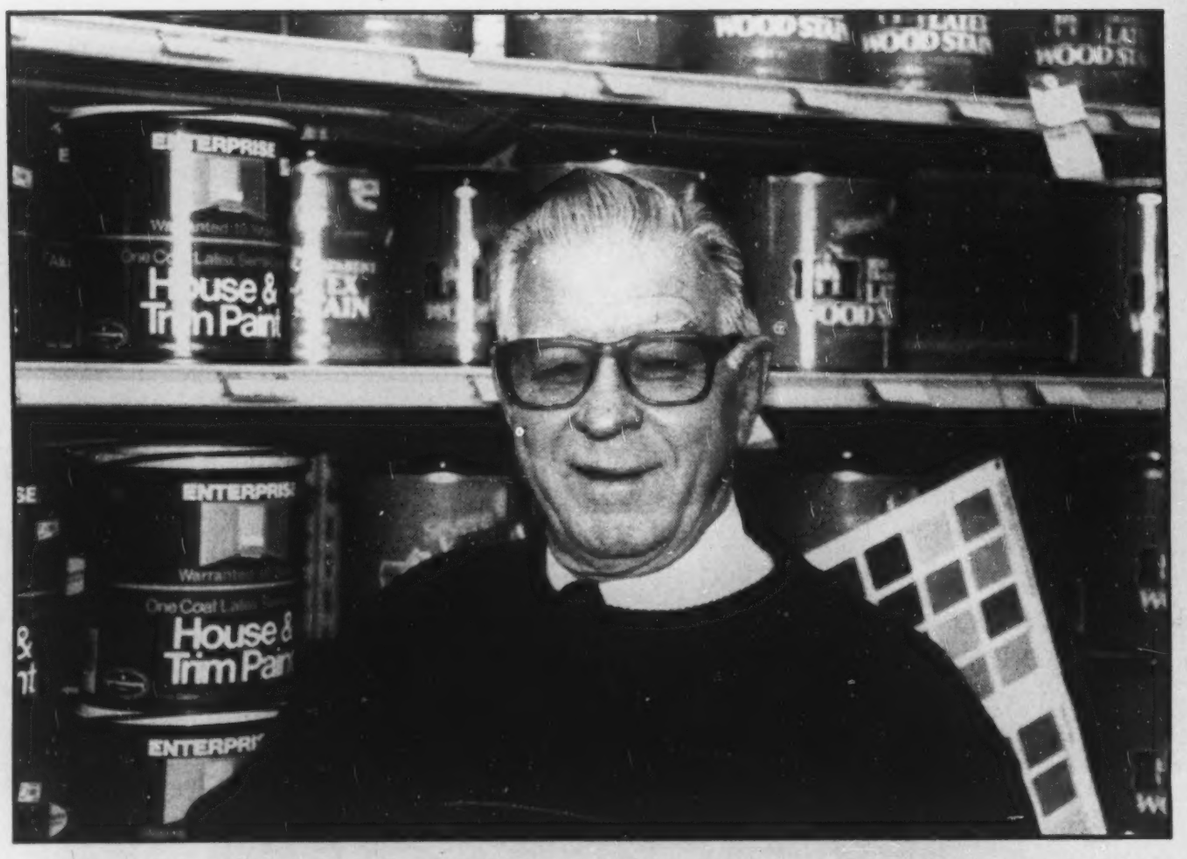
"I'm always surprised at the number of people out there who possess a lot of knowledge," says Bender, the chain's president.

Seniors preferred

To improve their odds of finding qualified part-timers, more dealers and wholesalers are following a national trend toward selecting from a growing legion of seniors for all but the most strenuous of jobs.

Just recently, the *Wall Street Journal* reported on a study by the Commonwealth Fund, based on research from Louis Harris & Co., that says there may be as many as 1.1 million available workers aged 50 to 64, compared to the Labor Department estimate of 630,000; 54 percent said they would accept weekend or evening hours.

This doesn't even account for the over-65 group, which is well represented in the home improvement field.



Bill Braxdale retired from full-time employment at Dixieline Lumber after 30 years, but stayed with the company on a part-time basis, drawing on his years of experience to answer customers' questions. NHCN photo

One of the part-timers working at Essen Hardware is 78 years old (*see other story, page 38*). Seventy-four of the part-timers at Builders Square are at least 70 years old, according to senior vp-human resources Steve Waldschmidt.

Many of these seniors already have long-term experience in the home improvement business, or have worked in some field that gave them an understanding about selling products and projects.

One such senior is Bill Braxdale, who worked for Dixieline for 30 years retiring in 1984. "But I left with the understanding that I could stay on part time, which they thought was great."

The 69-year-old Braxdale, who's been in the lumber business since he graduated from high school, as a full-time worker handled charges and credits for contractors. As a part timer he provides customer service "which is a lot harder because you have to show people how to build the projects they're doing."

Braxdale, who currently puts in around 12 hours a week at Dixieline's Sports Arena unit, said he's going to stick it out until he turns 70. After that, "I might do a little more fishing."

Non-traditional recruitment

Seniors notwithstanding, the challenge for industry employers is to find qualified part-timers at a time when every company is vying for the cream of the crop. "Any way we can," is how Wickes Lumber's Morphet says his company tracks down part-time help, including getting in touch with shop teachers in local high schools.

Traditional ways of unearthing workers don't always produce results, though. "In Spokane [Wash.], I made the mistake once of running a newspaper ad for part-time help," recalls Rumwell of Henry Bacon. "I had people lined up outside the building. With part-timers, screening is more important, and it's better to go through employee referrals or PTAs or posting

(Continued on page 38)

Retailing exhibits greatest use of part-timers

There are no reliable breakdowns of how many part-time workers there are in the home improvement industry. But retailing in general uses part-timers to a much greater extent than other industry sectors.

While only 17 percent of the total U. S. work force of 117,342,000 was part time (i.e., worked less than 35 hours per week) in 1989, that figure nearly doubles to 33.4 percent of the 17,998,000 in the retail sector, based on annualized estimates by the Bureau of Labor Statistics.

That compares with 34.3 percent of the retail total of 17,517,000 in 1988; 34.7 percent of 16,369,000 workers in 1985; and only 28 percent of 9,921,000 in 1968, the first year these data were tracked. Over that 21-year time period, the percentage of the total work force that was part time changed less dramatically from 14 percent in 1968 and 18.2 percent in 1985, according to bureau economist Jim Markey.